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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1946

No. 164

TOMLINSON I. MOSELEY, RALPH M. KEELE and KEELMO CO. (a corporation),
Petitioners,

vs.

UNITED STATES APPLIANCE CORPORATION,
Respondent.

BRIEF FOR RESPONDENT IN REPLY TO MEMORANDUM OF UNITED STATES AS AMICUS CURIAE IN SUPPORT OF A PETITION FOR A WRIT OF CERTIORARI.

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The Memorandum of the United States as Amicus Curiae is based upon the charge that the questions presented in the instant case are of public importance and were improperly decided by the Courts below.

Prior to determining whether the questions are of public importance or were improperly decided it is necessary to analyze the Government's Memorandum.

HISTORY OF THIS CASE.

The Government does not point out that this case was previously before this Court on Petition for Certiorari, in the October term, 1941 as *Tomlinson I. Moseley et al. vs. United States Appliance Corporation,* No. 632. That Petition for Certiorari argued that the decision entitled *United States Appliance Corporation vs. Beauty Shop Supply Co. Ltd., et al.,* 121 Fed. (2d) 149, was wrong. In that decision the Circuit Court had determined:

(1) That the Defendants (present petitioners) were estopped to deny the validity of the patent in suit, and

(2) That they were guilty of patent infringement and must respond to an accounting.

The Petition for Certiorari was denied on Nov. 10, 1941. 314 U. S. 680.

Since the denial of the Petition for Certiorari in 1941, the parties have been involved in the accounting proceedings which are the subject matter of the present Petition for Certiorari. Depositions were taken; hearings were held before a Special Master; hearings were held before the District Court; and the case was ultimately appealed by the present petitioners to the Circuit Court of Appeals for the Ninth Circuit, whose decision is reported in 155 Fed. (2d) 25. The only questions involved here are accounting questions.

CONTENTION OF GOVERNMENT AS TO THE NATURE OF THIS LICENSE CONTRACT.

The Government relies heavily upon its premises that:

> "Petitioners' grant of a license to Rilling-Arnao was no more than an agreement not to interfere with the licensee's use of the invention".

This premise is wholly false and unsubstantiated.

The entire license agreement between the petitioners and the Rilling-Arnao Company was never before this or any other Court although the Respondent has many times demanded its production. The only portions of the agreement which are before this Court or which have ever been before either the District Court, the Special Master, or the Circuit Court of Appeals are those portions found on Pages 121 to 124 of the Transcript of Record.

In view of the fact that the entire license agreement is not in the Record, it is respectfully submitted that it is impossible and improper for the Government to speculate as to what covenants it may contain, or to base any arguments upon what the Government believes may be its legal effect.

In spite of the fact that all of the details of the License Contract are not of record, the Government argues as follows:

> (1) "Petitioners' grant of a license to Rilling-Arnao was no more than an agreement not to interfere with the licensee's use of the invention".

(Note: From the record on hand it is logical to assume that the license agreement contained covenant upon covenant relating to the rights and obligations of the respective parties.)

(2) "The owner of the patent on the modification does not by granting a license on his patent in any way imply that a license is unnecessary on the basic device."

(3) "The license here merely authorized Rilling-Arnao to use the modifications of the devices under petitioners' patent and did not authorize the use of any device covered by patents owned by others."

(Note: There is no evidence concerning whether or not the terms of the contract specified the use of any particular device, but note that even the United States, upon the first page of its brief, acknowledges that "Petitioners also furnished Rilling-Arnao with models and designs of the device." The logical conclusion is that by this act the licensee *did* authorize the use of that type of device by Rilling-Arnao under the license. In addition it should be noted that the claims and specifications of the licensed patent applications clearly describe the device to be made pursuant thereto. (Defendants' Exhibit 9. See Tr. pp. 203-4.)

In its attempt to urge the above views upon this Court the Government relies upon *DeForest Co. v. United States,* 273 U. S. 236, 242; *United Shoe Ma-*

chinery Corp. v. United States, 258 U. S. 451, 463; and *Western Electric Co. v. Pacent Reproducer Corp.,* 42 F. (2d) 116 (C.C.A. 2). From these decisions the Government draws the novel conclusion that a license is *no more* than an agreement not to interfere with the licensee's use of the invention. It is respectfully submitted that these cases simply hold, in effect, that if a licensee be sued by his licensor he can escape liability to the patentee for the use of the patented invention by showing that the use is within his license, but if his use be one prohibited by the license, the latter is of no avail as a defense. In other words these cases *do not* hold that a license is only a waiver of the right to sue by the patentee; any license contract (and particularly an exclusive license as in the present case) more probably consists of a waiver of the right to sue *plus* any further conditions and covenants the parties may agree to. While the record is silent as to all of the other conditions and covenants, it is clear from the record that the contract authorized the Licensee, Rilling-Arnao Company, to manufacture, use and sell the infringing device to the exclusion of others (including the Licensor) and that minimum royalties were stipulated to induce manufacture and sale. It is therefore submitted that the general argument by the Government relative to the nature of a license is not applicable or relevant.

The Respondent, at an earlier stage in this case, requested that the license agreement between Petitioner and its licensee be introduced into and made a part of the record. However, Respondent's requests

were denied by the District Court. The Respondent has not injected the terms of the license agreement into this case since that time. However, the United States, in its Memorandum, makes a number of unproven general statements in its attempt to convince this Court that the present case is one in which broad principles of law may be set forth. It is Respondent's feeling that this is not such a case, but if this Honorable Court believes that the questions raised by the Government in its Memorandum require their consideration by this Honorable Court, the Court should have before it the entire license agreement between the Petitioner, Keelmo Co., and its licensee, Rilling-Arnao Company, dated February 25th, 1937. If this license agreement were before the Court many questions, including the following, could be answered.

1. Does the license agreement require the Petitioner, Keelmo Co., to defend its licensee against patent infringement suits and particularly against infringement suits brought by the Respondent or its affiliate?

2. Does the license agreement require that the licensee manufacture infringing devices according to Petitioner's specifications and models?

3. Does the license agreement require that the Petitioner refrain from making or selling any competitive apparatus?

If the first question is answered in the affirmative, it would indicate that the parties recognized and considered the Respondent's patents and the likelihood of infringement of the same.

In the event the answer to the second question is in the affirmative, it would confirm Moseley's testimony and show that the license agreement went beyond the scope claimed for it by the Government.

In the event the answer to the third question is in the affirmative, the Petitioner excluded itself from in any manner manufacturing and selling competing devices and restricted its acts to the acts complained of.

Respondent suggests that these questions are pertinent *and in all probability would have to be answered in the affirmative* upon examination of the license agreement. In the event this Court deems it advisable to have the license agreement before it, Respondent waives any right it may have to object or to prevent the Petitioners voluntarily producing the same or to this Honorable Court ordering its production. It is respectfully submitted that unless the entire agreement is before this Court, the Government's arguments must be ignored and the Petition for Certiorari be denied.

ACTS OF PETITIONERS WERE INFRINGING ACTS.

The Government, after considering in general the nature of license contracts concludes that—

> "These circumstances do not justify a charge of infringement against petitioners. Petitioners, in granting the license, did not in any sense make, use or vend the invention covered by respondent's patent without respondent's consent. Accordingly, the act of granting the license cannot constitute a direct infringement or an invasion of respondent's '* * * exclusive rights to make, use and vend

> * * *,' under R. S. 4884, 35 U.S.C. 40, the device covered by its patent."

The Government apparently assumes that the "act of granting the license" includes only the act of executing a document. The execution of a license agreement is but one of a series of acts which the Courts below have determined were done by the petitioners, including:

(1) First making and using the infringing device.

(2) Showing the President of the prospective licensee the infringing device.

(3) Turning over certain information, including models and designs to prospective licensees.

(4) Causing an exclusive license agreement to be made containing minimum royalty provisions, and

(5) Profiting from the license agreement

As has previously been pointed out by Respondent in the Brief for Respondent in Opposition of Petition for Writ of Certiorari, dated July 3, 1946 and previously filed with this Court, the question herein presented is not entirely new and does not amount to a radical development in and departure from conventional patent law. The earliest case on the subject is the case of *Toppan v. Tiffany Refrigerator Car Co.*, 39 Fed. 480, which was decided in 1889. The doctrine is re-expressed and re-affirmed in *National Mechanical Directory Co. v. Polk,* 121 Fed. 742; *Ruth v. Stearns Roger Mfg. Co.,* 13 Fed. Sup. 697, and *Walker on Patents, Deller's Edition,* Sec. 437, Page 1169.

The instant case does not come within the doctrine of the cases cited on page 3 of the Government's Memorandum.

In *George Close Co. v. Ideal Wrapping Machine Co.*, 29 Fed. (2d) 533, relied upon by Government, the Court had only to determine that actual construction and rebuilding of a machine amounted to an invasion of the patentee's rights.

In *New Wrinkle Inc. v. Fritz,* 30 Fed. Supp. 89, in which there was actual manufacture and sale by the defendant. The case does not hold that acts similar to those committed by Petitioners do not constitute manufacture, use or sale within the term of Section 4884. The case of *B. B. Chemical Co. v. Ellis,* 117 Fed. (2d) 829 affirmed 314 U.S. 495, is cited by the Government but here again the acts of the respective parties are not similar.

The Government states that the decision of the Lower Court can not be supported by the doctrine of contributory infringement, arguing that it is well settled that there can be no contributory infringement unless "there is a completed infringement to which a contribution can be made." The Government points out that the suit was dismissed as to a user of the infringing device on the ground that the respondent's patent was invalid, and from this draws the conclusion that there can be no finding of direct infringement.

It is respectfully submitted that the foregoing argument of the Government is fallacious. The Circuit Court in its first decision (121 Fed. (2d) 149) held

that in the absence of a showing with respect to agency, the party Beauty Shop Supply Co., Ltd. (a jobber) was not estopped to deny validity. The Rilling-Arnao Company, licensee of the petitioners and the manufacturer of the device found to infringe, is not a party to the suit. There is no way, other than conjecture, of determining whether or not the Rilling-Arnao Company may likewise be estopped to deny the validity of the patent in suit. However there was a manufacture and lease of the infringing device and, to this manufacture and lease, it must be agreed that the Petitioner's acts contributed. This matter is argued in Respondent's principal Brief herein.

DECISION NOT ADVERSE TO INTERESTS OF THE PUBLIC.

The Government claims that the questions herein are of public importance. The Government claims that the decision extends the scope of a patentee's control and will seriously discourage the licensing of patents to the detriment of the public since, in the Government's opinion, one who licenses anyone except the holder of an overlapping patent, will be held liable as an infringer under the doctrine of this case. It is respectfully submitted that the present case is not a clear-cut determination of such a doctrine and that the facts of the case are not such that a clear-cut determination or doctrine may be evolved. In the first place the licensors made and used the infringing device, showed the device to the licensee and *turned over certain information including models and designs of the infringing device to the licensee.* They did more

than merely waive their right to sue. They showed the licensee the type of device which could be manufactured in accordance with their invention and, in fact, their licensed patent applications disclosed clearly the type of device to be manufactured. The contract which they negotiated with the Rilling-Arnao Company was an exclusive grant, whereby Petitioners by contract agreed to refrain from direct manufacture, use and sale. They assumed more responsibility than an ordinary licensor assumes when he merely waives his right of action under the law for damages and injunction.

The Government, in its footnote on page 4, alleges that there is nothing to indicate that the petitioners provided the licensee with any information that could not have been obtained by an examination of the patent disclosures. It is respectfully submitted that at the time the license was granted the patent disclosures were confidential documents in the Patent Office. All information which was obtained by the licensee was either confidential information exclusively in the hands of the licensors or was embodied in certain models and specifications turned over to the licensee. The Government's allegation that the mere showing of a modified device or furnishing information concerning it is not sufficient disclosure represents only the Government's viewpoint and is not a declaration of the law.

The Government states that many patentees are able to exploit their inventions only by licensing or selling their patents and that the instant decision would serve to seriously narrow the market for patents and would lead to a concentration of patents in the hands of

dominant patentees, thereby extending monopoly power and reducing the likelihood that a patent's validity will be challenged. It is respectfully submitted that, at best, this is but one side of the case. It is equally conceivable that a party, in an attempt to avoid damages (and the effects of estoppel as in this case) can by license agreement promote the manufacture and sale of a clearly infringing device through an impecunious dummy. In such instance the licensor could receive by way of royalties substantially all of the profits from the manufacture and sale and in no way be liable for the infringement. Such a situation is just as plausible and just as apt to occur as that described by the Government. In fact the instant case is just such a situation. The Petitioners are estopped by deed and conduct from infringing Respondent's patent and are presently under an injunction. To upset the present decision would be to allow the Petitioners to profit indirectly from acts which they are unable to do directly.

The Court does not have to deal in conjectures. Here is an actual case showing the equities of the situation and these equities are overwhelmingly in favor of Respondent.

It would appear that the decision below may mean that a patent's invalidity may be challenged more frequently since the number of parties from whom damages can be obtained may be increased.

The Government also charges that the decision below will be particularly serious in that it will mean that employees who customarily must assign their patent to their employers would often be precluded

from disposing of subsequent patent rights to anyone else even though they covered inventions made long after employment was terminated. It should be pointed out that if the inventions are made after employment terminates, it is probable that all contract rights between the parties have ceased. In addition such employees may insert in said employment contract a covenant whereby they may contest the validity and the scope of a patent in the same manner as any other party.

CONCLUSION.

It is respectfully submitted that this Court should deny the Petition for Certiorari.

The matters sought to be raised by the Government as *amicus curiae* relating to the terms of the license contract are not before this Court. To attempt to draw a broad doctrine from a decision based on such a record is at best a haphazard procedure and leads to uncertain results.

It is respectfully submitted that the fears of the United States are groundless in that the decision complained of will not extend the scope of control of patentees or discourage the licensing of patents to the detriment of the public.

It is respectfully submitted that the decision below would not seriously narrow the market for inventions and lead to an increasing concentration of patents.

It is respectfully submitted that the decision below will not reduce the likelihood that a patent's validity will be challenged.

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The facts of the case are not so clear cut has been.
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Dated, San Francisco, California,
October 16, 1946.

Respectfully submitted,
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